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JAPANESE FISCAL POLICY IN FY 1986: STEADY AS SHE GOES

Summary

Amidst the whirl of financial liberalization, deregulation and privatization that has gripped the Japanese economy since Yasuhiro Nakasone became prime minister, fiscal policy has been held to a steady course. For the fourth straight year, discretionary spending in the fiscal year that started April 1 has not been allowed to increase. Priorities have also remained fixed, with defense, official development assistance, and science and technology at the top of the list.

While this constancy is certainly admirable given the concern over the national debt, some policymakers are wondering whether it is the right course. In light of Japan's snowballing global trade surplus, Tokyo has come under increasing pressure to alter its tightfisted policies. While prospects for tax reform and deregulation are bright, fiscal policy is likely to remain on its present course at least through FY 1986.

Budget Basics

As a result of the American occupation of Japan after World War II, Japan's fiscal system has many elements in common with our own. The Ministry of Finance begins the budget process by issuing initial guidelines to other ministries and agencies in early summer. By fall each ministry has submitted its request, which is usually above the MOF guideline. MOF engages in negotiations with each ministry until December, at which time a compromise figure is reached. The entire budget is then approved by the cabinet and submitted to the Diet for passage.

The lower house of the Diet reviews the cabinet's budget but usually does not make any significant changes, since Dietmen have no power to introduce legislation. The deliberations, however, do provide for some degree of transparency because cabinet ministers are subjected to intense questioning about every aspect of the fiscal plan. Opposition parties can often wring concessions from the ruling Liberal Democratic Party by stonewalling or walking out of the budget debates as the March 31 deadline for passage of the package nears.

Once the lower house approves it, the budget automatically goes into effect 30 days later. Nevertheless, the upper house of the Diet also discusses and votes on the spending plan, providing another chance for questions and answers. If for some reason the budget is not ready when the new fiscal year starts on April 1, a provisional budget (similar to a continuing resolution in the United States) is approved. The provisional budget is absorbed into the full-year budget when it is finally passed.

A supplementary budget is usually devised and put into effect during the January-March quarter. This scheme gives the government some room for maneuver at the end of the fiscal year. Natural disaster relief, government wage increases, and public works projects usually make up the bulk of a supplementary budget.

On the revenue side, the process is still more flexible. Although the overall level and general sources of revenue are set at the same time as expenditures, the Japanese system allows for many alterations and special tax measures that can have a significant impact on fiscal policy. In the past two fiscal years, for example, opposition parties have demanded large income-tax reductions as the price for their votes on the budget. To compensate for such unforeseen shifts, a package of temporary tax measures is normally assembled. These special tax measures may be as minor as raising the tax on theater tickets or as important as introducing a new tax credit for research and development. Unlike the development of the spending program, the writing of the tax bill involves considerable give-and-take between the bureaucracy and political parties. Nevertheless, Japan's tax system is relatively free of loopholes and industry-specific provisions in comparison to the United States' tax picture.

How It's Spent

As for the structure of expenditures, Japan's system exhibits important differences. Four budgets account for the bulk of outlays: the General Account budget, the Special Accounts budget, the Government-Affiliated Agencies budget, and the Fiscal Investment and Loan Program. The General Account budget is directly analogous to the U.S. federal budget; it contains spending for social welfare, education, defense, revenue sharing and central government operations. In addition, however, it includes significant transfers to the Special Accounts budget. The General Account is funded by tax and bond revenues with the following exceptions: local road taxes, a special tonnage duty on imports, a tax for the development of new energy sources, half of the liquefied petroleum gas tax, a portion of the crude oil customs duty, a quarter of the motor vehicle tonnage tax, and two-thirteenths of the aviation fuel tax.

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The financing and administration of specific projects or funds fall under the Special Accounts budget. This includes, for example, the Mint Bureau, the National Forest Service, harbor and airport improvement projects, the Postal Savings system, certain government insurance programs, national schools and hospitals, the Trust Fund Bureau (which manages all government pension funds), several energy development projects, and the National Debt Consolidation Fund. Each special account has its own revenue source, such as transfers from the General Account, receipts from government enterprises administered under the Special Accounts, social insurance contributions, or interest from loans. Domestic and foreign bonds may also be issued to fund special accounts.

Government-affiliated agencies that are legally separate from the government have their own budget. Although all funding for these agencies comes from the Treasury, day-to-day operations are independently managed. Because funding comes from national coffers, the Diet must approve all agency budgets. Until recently, three public monopolies represented the majority of this account: Japan Tobacco and Salt Public Corp., Nippon Telegraph and Telephone Public Corp. and the Japanese National Railways. With the privatization of JTS and NTT in April 1985 and the impending transfer of JNR to the private sector, however, the size of the account will be greatly diminished. The remaining agencies include the Housing Loan Corp., the Small Business Finance Corp., the Hokkaido and Tohoku Development Finance Corp., the Japan Development Bank and the Export-Import Bank of Japan.

Finally, the Fiscal Investment and Loan Program, the so-called second budget, lists various investments and loans through the government, financed with funds entrusted to the government. To quote the Ministry of Finance, the FILP's purpose is "the enhancement of public policy especially in the fields of housing, public service facilities (highways, railroads and miscellaneous services), and medium- and small-size enterprises." Recipients of FILP monies can be divided into six groups: special accounts (which include urban development loans, national hospitals and schools and the postal system); major public corporations like JNR; finance corporations (including the Housing Loan Corp., the Small Business Finance Corp., several development corporations, the Japan Development Bank and the Export-Import Bank); public enterprises (such as the Environmental Pollution Service Corp., the Japan Regional Development Corp., the Japan Highway Corp., the New Tokyo International Airport Corp., the Japan National Oil Corp., the Japan Science and Technology Information Center, and the Overseas Economic Cooperation Fund); local government transfers; and other companies (Japan Air Lines Co., Ltd., the Shoko Chukin Bank Ltd., the Kansai International Airport Co., Ltd. and the Electric Power Development Co., Ltd.).

There are four sources of FILP money: the Postal Savings Fund and the Trust Fund Bureau, the reserve funds of the Postal Life Insurance and Postal Annuity special accounts, the Industrial Investment special account, and domestic construction bonds issued by public corporations such as JNR and the Japan Highway Public Corp. (The government guarantees the payment of principal and interest on these bonds.) Diet approval of appropriations from the Industrial Investment special account and of any issue of government-guaranteed bonds has always been mandatory. After FY 1972, however, the Diet also voted on appropriations from the remaining two sources since the FILP had grown to nearly half the size of the General Account.

How It's Paid For

There is very little difference between Japan's taxation system and that of the United States -- an unsurprising situation since the U.S. system was the model for Japan's. There is a great reliance on direct taxes, with personal and corporate income taxes accounting for almost 70 percent of total tax revenues. Personal income tax rates remain highly progressive, with the top bracket set at 70 percent for individuals with incomes of over Y80 million ($444,000 at Y180=$1.00). Corporate tax rates are set at 31 percent for nondividend income up to Y8 million ($44,000) and 43.3 percent above this level. A wide range of other taxes on energy supplies, commodities and luxuries supplements these levies. (See Table 1 for a detailed breakdown of tax receipts.)

Nevertheless, General Account expenditures are heavily reliant on borrowed money. In FY 1986, after four years of austerity, bonds worth one-fifth of total General Account outlays will be issued. Although this is a great improvement over the FY 1979 budget, when over one-third of revenues came from bonds, it is still too high in the eyes of Finance Ministry officials and the prime minister.

Other sources of government funds are likely to be put under pressure as the pace of financial liberalization accelerates. As Japanese plan for retirement, they will demand increasingly higher returns from pension and insurance funds. Although no Japanese version of the U.S. Individual Retirement Account is planned, the government pension system could become uncompetitive in relation to private systems as financial deregulation takes hold. Furthermore, if the tax-exempt status of interest earned on small deposits is repealed, the Postal Savings system would be hard hit. Should these two pools of money begin to dwindle, the Fiscal Investment and Loan Program may come up short. While this scenario is certainly some years off, policymakers are already concerned.

The Picture For FY 1986

Outlays - The iron grip of austerity continues to squeeze nondiscretionary expenditures (see Tables 2 and 3), as FY 1986's initial General Account budget shows a tiny decline of Y1,235 million ($6.7 million) from the previous year's preliminary budget. In order to achieve this feat, practically every category has been cut, the exceptions being social security, promotion of science and technology, and foreign aid. In contrast, nondiscretionary spending continues its upward climb. For the first time, debt-service payments will account for over one-fifth of total outlays. At the same time, transfers to local governments continue a pattern of normal growth since they are determined as a certain percentage of the receipts from several taxes.

Increased outlays planned in the Fiscal Investment and Loan Program will help to cushion the deflationary impact of the freeze on General Account spending (see Table 4). The strong jumps in spending for housing, water projects, roads and other transportation infrastructure are expected to ease pressure from politicians for pork-barrel spending.

Revenues - Here, too, Mr. Nakasone's priorities are clear. The issuance of government bonds will be reduced by over 6 percent, while direct and indirect taxes will be increased as compensation. Concern over the heavy

dependence on direct taxes is also evident from the greater percentage increase planned for indirect levies. Unfortunately, the government has already run into problems meeting its estimates for FY 1985, and is likely to be hard pressed to keep to its ambitious bond-reduction program despite projected revenue increases due to normal growth and temporary tax measures.

Special tax measures for FY 1986 include stimulative provisions that will be paid for by businesses (see Appendix). A housing tax credit and special measures to promote private-sector involvement in public works projects will initially cost the government an estimated Y42 billion ($233 million). The extension of several of last year's tax increases on businesses, the repeal of another provision, and an increase in the tobacco excise tax are expected to raise an estimated Y383 billion ($2.1 billion) during the same period. Therefore, there will be a net gain of Y341 billion ($1.9 billion) for the fiscal year.

The lid on expanded bond issues also applies to the FILP budget. Such being the case, the demands placed on other income sources will increase proportionately. With the average age of the population increasing rapidly and financial liberalization spreading, the implications of such a shift in funding are clear.

The Bottom Line - There is little doubt that the impact of government spending will be neutral, if not negative, in FY 1986 despite the fatter FILP budget and the recently announced economic stimulus package (see JEI Report No. 15B, April 18, 1986). The government has been forced, therefore, into seeking other ways to stimulate domestic demand.

The Stronger Yen: Boon Or Bane?

The significant appreciation of the yen against the dollar and other currencies since September 1985 will undoubtedly have an impact on the budget. There is a wide divergence of opinion, however, over whether it will be positive or negative. In the short run it will probably increase outlays, because more businesses will become eligible for government assistance programs or be able to take advantage of tax provisions that help out companies in financial difficulties. Neither the stronger yen nor lower prices for crude oil are likely to decrease significantly the cost of energy conservation programs, since the government considers the fortuitous combination to be temporary.

Over the medium term, in contrast, planners are more optimistic. By FY 1989 the economy should have completed its readjustments to the stronger yen and faster growth should begin to return, ameliorating budget strains (see Tables 5 and 6). It should be noted, however, that these medium-term outlooks assume that the yen will stabilize and the deficit-reduction program will remain on course. Given current exchange-market and political realities, these assumptions are tenuous at best. (Note the major differences in outlooks made just one year apart.)

Other Items On The Agenda

Tax Reform - The momentum behind tax reform has finally resulted in the first significant step: the prime minister has appointed an advisory panel to study possible changes. Although Mr. Nakasone would like the first reforms to

be ready for fiscal 1987, there still may be too many political barriers for such rapid action. The biggest hurdle is to overcome Finance Ministry concerns about how any changes will affect the revenue picture. A major element of reform, therefore, is expected to be tighter reporting and collection regulations.

The broad outlines of tax reform are clear: there will be a reduction in the number of personal income-tax brackets, a lowering of the top rates, more generous investment write-off provisions for businesses, and incentives for research and development. Beyond this, however, there is little agreement. Hot debate topics include the imposition of a major indirect tax modeled after the value-added tax used in Europe; new depreciation schedules incorporating much shorter lifespans for capital goods; the reduction or elimination of savings incentives; and the implementation of consumption incentives.

Administrative Reform - The deregulation and privatization programs in progress under the umbrella of administrative reform will have, if they have not already had, a significant impact on the fiscal picture. The boom set off by the deregulation of the domestic market for telecommunications equipment and services has undoubtedly opened new flows of revenue. The same can be said about the several steps taken as part of the liberalization of financial markets. The privatization of the tobacco, telecommunications and railroad public corporations will push these large enterprises off the government budget sheets, shrinking the overall numbers, if nothing else. There may be unforeseen consequences in terms of adjustment assistance, new legislation, and perhaps even the collapse of large enterprises that may create new fiscal pressures. On balance, however, Japanese planners are optimistic that the benefits of administrative reform will outweigh the costs.

Austerity: The Right Course?

Mr. Naksone's consistent fiscal policy is laudable from many standpoints. It has certainly become the hallmark of his administration, winning the prime minister respect for his determination to do what he feels is "right." This applies to both domestic and international politics. From an economic view, it provides a relatively stable base from which private businesses can plan their actions. It also addresses the long-term issue of the large national debt -- by tightening belts now, this policy may prevent a disaster farther down the road.

Many analysts, however, have questioned whether a disaster really lies in wait. Because of Japan's very high savings rate (both corporate and individual), there is little possibility that heavy government borrowing will crowd out private-sector investment. If the government creates the necessary financial infrastructure (sufficiently free of regulation), then it should have no trouble rolling over the debt. Indeed, such a rollover process has the potential for becoming a major market, as it is in the United States.

On the other hand, fiscal conservatives point to the aging population and the economic challenges posed by new technologies and rapidly advancing Third World countries as justification for maintaining a hard line on spending. Japan, they contend, will need a vast pool of savings, a lean government and a vital private sector to respond to new situations.

The intensity of the debate will increase whether the economy prospers or falters in the coming year, although certainly more if the latter occurs. If Tokyo is going to make a thorough attack on the trade and other problems it is experiencing with other nations, it cannot ignore imbalances in macroeconomic policies vis-a-vis those countries. There is general agreement that such a mismatch currently exists between Japan and the United States: they need to spend more and we need to spend less. This would seem to dictate an end to austerity, or at least a lengthening of the time frame for implementation. Whether or not Mr. Nakasone and the Finance Ministry move in this direction may depend on how the economy performs this year. Unfortunately, exchange-rate and commodity-price instabilities make current economic forecasts more tenuous than usual. It seems that for the time being, therefore, the sailing orders for Japan's fiscal policy are "steady as she goes."

For further information, contact Jon Choy.

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The views expressed in this report are those of the author and do not necessarily represent those of the Japan Economic Institute.

Appendix: Summary of Tax Reform in FY 1986

Promotion of Home Purchases

1. The current system of a "credit for the acquisition of a dwelling house" will be replaced by the following:

> A taxpayer will be entitled to an income tax credit, up to an amount equal to 1 percent of the balance of the housing loan payment, calculated at the end of each year (limited to Y20 million).

2. The present "special tax treatment for a gift from parents or grandparents for acquiring residential properties," which is a temporary measure due to expire at the end of FY 1985, will be extended and expanded as follows:

- The maximum eligible amount will be raised from Y5 million to Y8 million.
- Old houses will be eligible for special treatment.

Promoting Private-Sector Vitality

3. To support financing of the "Trans-Tokyo Bay Highway," the following measures will be introduced:

- The profit from the redemption of an original issue discount bond, issued by particular companies in connection with construction of the highway, will receive special tax treatment.

- An amount equal to 10 percent of the sum invested in specific companies will be deductible from corporate income.

4. Depreciation of 13 percent in the first year of the amount spent on specified facilities as part of the "Private Sector Vitalization" program will be allowed.

5. To promote investment in energy-saving plant and equipment, a special depreciation allowance of 30 percent or a tax credit of 7 percent of the amount invested will be introduced.

6. Current investment incentives for small- and medium-size enterprises (30 percent special initial depreciation allowance or 7 percent tax credit) will be broadened.

7. The rate of depreciation (or tax credit) as specified in measures 5 and 6 above will be raised by 20 percent when imported equipment is purchased.

Rationalizing Special Taxation Measures

8. The reserve for price fluctuations will be abolished.

9. The proportion of revenues that small- and medium-size enterprises can set aside for overseas market development will be reduced.

10. The deferred value of the special treatment for the rollover of property, which allows accelerated depreciation, will be limited.

Amending Special Measures on Corporate Income Tax

11. The special additional tax of 1.3 percent, which was due to expire at the end of FY 1985, will be extended through FY 1986.

12. The carryover of losses from the previous year will be disallowed temporarily.

Other

13. The tobacco excise tax rate will be raised by Y450 per 1,000 cigarettes effective May 1, 1986. The higher rate will remain in effective to March 31, 1987.

Estimated Revenue Effects of FY 1986 Reforms

(in billions of yen)

	First Year	Out Year
Promotion of Home Purchases		
Tax credit change	Y-37	Y-30
Broader gift tax treatment	-2	-2
Total	-39	-32
Promotion of Private-Sector Vitality		
Special depreciation	-1	-1
Investment promotion	-2	-2
Total	-3	-3
Rationalizing Special Taxation Measures		
Reserve abolition	6	13
Rollover limitation	34	43
Other	0	-2
Total	40	54
Corporate Tax Measures		
Carryover loss limitation	223	0
Other		
Increased tobacco excise tax	120	135
Total	341	154

Source: Ministry of Finance

Table 1: Japan's National Tax and Stamp Receipts, FY 1983-FY 1984

(in billions of yen)

	FY 1983	FY 1984
General Account	Y32,358	Y34,908
Taxes	31,064	33,573
Personal Income Tax	13,643	14,063
Withheld	10,695	11,041
Self-assessed	2,948	3,022
Corporate Income Tax	9,824	11,341
Inheritance and Gift Tax	786	877
Liquor Tax	1,813	1,860
Sugar Excise Tax	39	42
Gasoline Tax	1,627	1,647
Liquified Petroleum Gas Tax	16	15
Aviation Fuel Tax	49	52
Petroleum Tax	337	388
Commodity Tax	1,295	1,495
Playing-card Tax	0.5	0.4
Bourse Tax	18	13
Securities Transaction Tax	418	506
Travel Tax	70	77
Admission Tax	8	8
Motor Vehicle Tonnage Tax	472	488
Customs Duty	640	692
Tonnage Duty	8	9
Others	0	0
Stamp Revenue	1,294	1,335
Special Accounts	797	848
Local Road Tax	293	296
Liquefied Petroleum Gas Tax	16	15
Aviation Fuel Tax	9	9
Motor Vehicle Tonnage Tax	157	163
Special Tonnage Duty	11	11
Customs Duty on Crude Oil	132	128
Energy Development Tax	180	227
Total	33,155	35,756

Source: Ministry of Finance

Table 2: Japan's General Account, FY 1982-FY 1986

(in billions of yen and percentage change)

	FY 1982 (revised)		FY 1983 (revised)		FY 1984 (revised)		FY 1985 (revised)		FY 1986* (initial)	
Total Expenditures	¥47,562.1	0.9%	¥50,839.4	6.9%	¥51,513.4	1.3%	¥52,499.6	3.7%	¥54,088.6	3.0%
Social Security	9,141.6	3.1	9,231.5	1.0	9,231.0	-0.0	9,573.6	2.7	9,807.4	2.4
Public Assistance	1,080.6	8.9	1,129.7	4.6	1,139.4	0.9	1,081.5	-5.1	1,103.4	2.0
Social Welfare	1,603.6	6.3	1,917.5	19.6	1,999.2	4.3	2,004.2	0.3	1,895.7	-5.4
Social Insurance	5,658.2	1.6	5,378.9	-4.9	5,347.9	-0.6	5,658.4	5.8	5,951.0	5.2
Health Service	425.6	1.7	435.4	2.3	467.0	7.3	462.1	-1.0	493.8	6.9
Unemployment	373.7	-2.2	369.8	-1.1	367.5	-0.6	367.3	-0.0	363.5	-1.1
Education and Science	4,832.6	0.2	4,834.3	0.0	4,866.5	0.7	4,840.9	0.2	4,777.8	-1.3
Compulsory Education	2,220.5	2.4	2,254.5	1.5	2,302.6	2.1	2,357.5	2.4	2,350.1	-0.3
Transfer to School Account	1,015.5	0.1	1,015.6	0.0	1,071.7	5.5	1,062.7	-0.8	1,074.3	1.1
Science Promotion	381.8	3.0	392.0	2.7	410.8	4.8	381.6	1.3	382.9	0.3
School Facilities	528.8	-9.5	489.8	-7.4	427.3	-12.8	385.1	-9.9	334.8	-13.1
School Aid	593.2	0.1	592.0	-0.5	567.9	-4.1	570.3	0.4	555.1	-2.7
Student Loans	90.8	0.2	90.3	-0.5	86.2	-2.5	83.8	-2.8	80.7	-3.7
National Debt Service	8,906.9	3.8	8,167.3	18.3	9,155.1	12.1	10,244.2	11.7	11,319.5	10.7
Pensions	1,891.7	4.9	1,890.0	-0.1	1,885.8	-0.2	1,863.7	-1.2	1,847.9	-0.8
Civil Servants	135.4	-0.5	132.7	-2.0	128.2	-3.4	124.8	-2.7	121.2	-2.9
Veterans	1,590.1	5.4	1,603.6	0.9	1,601.1	-0.2	1,578.7	-1.4	1,561.2	-1.1
Administrative Costs	10.3	3.4	10.6	2.5	10.5	-0.9	10.3	-1.7	10.3	0.2
War-bereaved Families	155.9	5.0	143.1	-8.2	146.0	2.0	149.9	2.7	155.2	3.5
Local Finance	7,976.4	-8.6	7,672.9	-3.8	9,219.0	20.2	9,690.1	9.0	10,185.0	5.1
Local Allocation Tax	7,535.2	-6.5	7,315.1	-2.9	9,036.1	23.5	9,690.1	6.8	10,185.0	5.1
Special Grants	0.0	**	2.0	**	0.0	**	0.0	**	0.0	**
Interest Support	441.1	-20.2	355.8	-19.4	182.9	-48.6	0.0	**	0.0	**
Defense	2,566.6	7.0	2,761.0	7.6	2,934.6	6.3	3,137.1	6.9	3,297.5	5.1
Public Works	7,281.3	4.0	7,224.3	-0.8	6,883.3	-4.7	6,368.9	-2.3	6,223.3	-2.3
Erosion, Flood Control	1,106.4	-0.1	1,107.4	0.1	1,098.5	-0.8	1,082.6	-1.4	1,048.3	-3.2
Road Improvement	1,891.9	-0.5	1,893.3	0.1	1,899.9	0.4	1,826.0	-2.5	1,767.6	-3.2
Harbors, Airports	522.6	-0.2	524.1	0.3	519.8	-0.8	511.8	-1.5	496.4	-3.0
Housing	877.9	4.1	894.3	1.9	915.0	2.3	757.7	-1.1	756.7	-0.1
Living Environment	987.2	0.1	988.2	0.1	980.3	-0.8	970.3	-1.0	957.0	-1.4
Agriculture	899.2	-0.1	900.0	0.1	891.9	-0.9	878.9	-1.5	856.7	-2.5
Forest Roads and Water	178.4	-1.2	177.1	-0.7	173.2	-2.2	169.6	-2.1	164.6	-2.9
Adjustment Reserves	11.7	-0.3	11.4	-3.1	10.9	-3.7	10.7	-2.2	10.5	-1.6
Disaster Reconstruction	806.1	47.2	728.4	-9.6	394.0	-45.9	161.3	-21.8	87.4	-45.8
Economic Cooperation	474.9	11.7	498.2	4.9	543.9	9.2	586.3	7.8	614.5	4.8
Small Business Measures	244.3	-1.3	238.9	-2.2	229.2	-4.1	216.2	-5.7	202.2	-6.5
Energy Measures	599.3	12.7	597.4	-0.3	603.2	1.0	628.8	4.2	623.4	-0.9
Food Price Supports	1,005.3	-0.9	917.2	-8.8	813.2	-11.3	695.4	-14.5	596.2	-14.3
Miscellaneous	4,451.0	-0.6	4,383.9	-1.5	4,354.9	-0.7	4,324.5	-1.0	4,164.0	-3.7
Others	0.0	**	2,232.5	**	125.3	**	0.0	**	0.0	**
Reserves	230.0	**	210.0	**	170.0	**	350.0	**	350.0	**
Total Revenues	47,562.1	1.7	50,839.4	6.9	51,513.4	1.3	52,499.6	3.7	54,088.6	3.0
Tax, Stamp Revenues	30,498.0	-4.2	31,902.0	4.6	34,835.0	9.2	38,550.0	11.4	40,560.0	5.2
Monopoly Profits	781.8	-22.4	1,004.2	31.8						
Public Enterprise Receipts	14.4	17.7	15.1	5.1	3,414.9	-30.9	2,269.6	-32.3	2,582.6	13.8
Sale of Public Properties	87.3	-7.7	82.7	10.3						
Miscellaneous	1,854.6	-25.8	3,843.3	107.2						
Public Bonds	14,345.0	11.2	13,790.0	-3.9	12,865.0	-6.7	11,080.0	-7.9	10,946.0	-0.3

*Percentage changes for FY 1986 are based on the initial budget for FY 1985.
**Cannot be calculated or meaningless.

Source: Ministry of Finance

Table 3: Discretionary Spending in the General Account, FY 1982-FY 1986

(in billions of yen and percentage change)

	FY 1982		FY 1983		FY 1984		FY 1985		FY 1986*	
Total Expenditures	Y47,562.1	0.9%	Y50,839.4	6.9%	Y51,513.4	1.3%	Y52,499.6	3.7%	Y54,088.6	3.0%
Minus										
Debt Service and Transfers to Local Governments	14,442.2	-1.7	15,482.7	7.2	18,191.2	17.5	19,914.2	10.4	21,504.5	8.0
Equals										
Discretionary Spending	33,120.0	3.2	35,356.8	6.8	33,322.2	-5.8	32,585.4	-0.0	32,584.2	-0.0

*Percentage changes for FY 1986 are based on the initial budget for FY 1985.

Source: Ministry of Finance

Table 4: Uses and Sources of Japan's Fiscal Investment and Loan Program Outlays, FY 1982-FY 1986

(in billions of yen and percentage change)

	FY 1982		FY 1983		FY 1984		FY 1985		FY 1986	
Total Outlays	Y20,288.8	4.1%	Y20,702.9	2.0%	Y21,106.6	1.9%	Y20,858.0	-1.2%	Y21,753.6	3.5%
Housing	5,130.1	0.4	5,304.1	3.4	5,289.5	-0.3	5,289.3	-0.0	5,676.8	7.3
Water Works	2,803.2	5.4	2,764.8	-3.4	3,007.5	8.8	3,280.9	9.1	3,625.4	10.5
Welfare	701.3	6.5	652.0	-7.0	637.9	-2.1	595.7	-6.6	597.4	0.3
Education	762.8	-3.9	783.0	2.6	777.1	-0.8	745.3	-4.1	793.3	6.4
Small Business	3,905.9	2.1	3,942.2	0.9	3,968.3	0.7	3,764.4	-5.1	3,673.2	-2.4
Agriculture	906.8	-1.1	963.0	6.2	1,034.8	7.5	890.6	-13.9	865.8	-2.8
Land Conservation, Disasters	310.2	11.9	332.5	7.4	379.1	13.8	472.8	24.7	349.1	-26.2
Roads	1,472.6	24.5	1,583.7	7.5	1,711.7	8.1	1,826.4	6.7	2,006.4	9.9
Transportation and Communications	1,949.0	-0.3	1,924.6	-1.2	1,887.6	-1.9	1,763.4	-6.6	1,972.6	11.9
Regional Development	538.1	20.7	511.4	-5.0	500.0	-2.2	511.2	2.2	554.9	8.5
Industry and Technology	635.6	7.1	626.2	-1.5	620.3	-0.9	603.3	-2.7	609.7	1.1
Foreign Trade and Economic Cooperation	1,113.2	10.8	1,315.4	18.2	1,292.8	-1.7	1,114.7	-13.8	1,029.0	-7.7
Total Revenues	23,788.8	3.5	24,402.9	2.6	24,706.6	1.2	25,858.0	4.7	26,753.6	3.5
Industrial Investment Special Account	18.9	0.0	5.2	-72.5	..8	-7.7	31.4	554.2	28.6	-8.9
Trust Fund Bureau Fund	19,568.9	0.5	19,135.3	-2.2	18,905.2	-1.2	20,029.0	5.9	20,370.0	1.7
Postal Savings 7,000.0		9.4	7,900.0	-11.2	7,900.0	0.0	6,900.0	-12.7	6,400.0	-7.2
Pensions 4,300.0		8.9	4,300.0	10.3	4,100.0	-4.7	3,850.0	-6.1	3,950.0	2.6
Payments, etc. 9,070.0		-6.3	7,368.9	10.3	7,135.3	-3.2	8,155.2	14.3	9,679.0	18.7
Postal Life Insurance Fund	1,981.0	4.8	2,354.4	18.8	2,586.6	9.9	2,587.6	0.0	3,145.0	21.5
Government Guaranteed Bonds and Borrowings	2,220.0	38.7	2,908.0	31.0	3,210.0	10.4	3,210.0	0.0	3,210.0	0.0

Note: All figures are based on initial budgets.

Source: Ministry of Finance

Table 5: Medium-Term Budget Projection, FY 1984-FY 1988

(in billions of yen and percentage change)

	FY 1984		FY 1985		FY 1986		FY 1987		FY 1988	
Payments										
Debt Service	Y9,155.1	11.7%	Y10,224.1	11.7%	Y12,930.0	26.5%	13,800.0	6.7%	Y14,550.0	5.4%
Transfers to Local Governments	8,886.4	21.5	9,690.1	9.0	10,330.0	6.6	11,140.0	7.8	12,010.0	7.8
General Expenditures	32,585.7	-0.1	32,585.4	-0.0	34,660.0	6.4	36,070.0	4.1	37,430.0	3.8
					[35,180.0	8.0	37,150.0	5.6	39,110.0	5.3]
Current Expenditures	24,654.9	1.1	24,951.3	1.2	26,910.0	7.9	28,250.0	5.0	29,530.0	4.5
					[27,310.0	9.5	29,100.0	6.6	30,860.0	6.0]
Capital Expenditures	7,930.8	-3.7	7,634.1	-3.7	7,750.0	1.5	7,820.0	0.9	7,900.0	1.0
					[7,870.0	3.1	8,050.0	2.3	8,250.0	2.5]
Total Payments	50,627.2	0.5	52,499.6	3.7	57,920.0	10.3	61,010.0	5.3	63,990.0	4.9
					[58,440.0	11.3	62,090.0	6.2	65,670.0	5.8]
Receipts										
Tax Revenues	34,396.0	7.1	38,550.0	11.4	41,290.0	7.1	44,240.0	7.2	47,400.0	7.2
Non-tax Revenues	3,351.2	-29.0	2,269.6	-32.3	2,370.0	4.4	2,530.0	6.5	2,690.0	6.5
Government Bonds	12,680.0	-8.0	11,680.0	-7.9	10,530.0	-9.8	9,380.0	-10.9	8,230.0	-12.3
Deficit Bonds	6,455.0	-6.2	5,730.0	-11.2	4,580.0	-20.1	3,430.0	-25.1	2,280.0	-33.5
Construction Bonds	6,225.0	-10.8	5,950.0	-4.4	5,950.0	0.0	5,950.0	0.0	5,950.0	0.0
Total Receipts	50,627.2	0.5	52,499.6	3.7	54,190.0	3.2	56,150.0	3.6	58,320.0	3.9
Shortfall (Total Payments minus Total Receipts)	--	--	--	--	3,730.0	--	4,860.0	--	5,670.0	--
					[4,250.0	--	5,940.0	--	7,350.0	--]
Current Expenditures	--	--	--	--	3,610.0	--	4,680.0	--	5,450.0	--
					[4,010.0	--	5,530.0	--	6,780.0	--]
Capital Expenditures	--	--	--	--	120.0	--	180.0	--	220.0	--
					[240.0	--	410.0	--	570.0	--]

Note: Figures in brackets allow for new stimulative spending.

Assumptions: For debt service costs, transfer of the required percentage of the outstanding debt to the sinking fund will be in effect after FY 1986; the national government will transfer to local governments 32 percent of national income, corporate and liquor taxes, which are expected to increase at the nominal rate of economic growth of 6.5 percent with an income elasticity of 1.2; overall tax revenues are based on nominal economic growth of 6.5 percent and an income elasticity of 1.1; and deficit bonds will be reduced by Y1,150 billion annually after FY 1986.

Source: Ministry of Finance

Table 6: Medium-Term Budget Projection, FY 1985-FY 1989

(in billions of yen and percentage change)

	FY 1985		FY 1986		FY 1987		FY 1988		FY 1989	
Payments										
Debt Service	Y10,224.1	11.7%	Y11,319.5	10.7%	Y13,920.0	23.0%	14,540.0	4.5%	Y15,070.0	3.6%
Transfers to Local Governments	9,690.1	9.0	10,185.0	5.1	10,800.0	6.0	11,640.0	7.8	12,550.0	7.8
General Expenditures	32,585.4	-0.0	32,584.2	-0.0	33,830.0	3.8	35,240.0	4.2	37,650.0	6.8
					[34,340.0	5.4	36,300.0	5.7	39,340.0	8.4]
Current Expenditures	24,951.3	1.2	25,214.1	1.1	26,380.0	4.6	27,710.0	5.0	30,030.0	8.4
					[26,780.0	6.2	28,540.0	6.6	31,380.0	10.0]
Capital Expenditures	7,634.1	-3.7	7,370.1	-3.5	7,450.0	1.1	7,530.0	1.1	7,620.0	1.2
					[7,560.0	2.6	7,760.0	2.6	7,960.0	2.6]
Total Payments	52,499.6	3.7	54,088.6	3.0	58,550.0	8.2	61,420.0	4.9	65,270.0	6.3
					[59,060.0	9.2	62,480.0	5.8	66,960.0	7.2]
Receipts										
Tax Revenues	38,550.0	11.4	40,560.0	5.2	43,120.0	6.3	46,200.0	7.2	49,500.0	7.2
Non-tax Revenues	2,269.6	-32.3	2,582.6	13.8	2,360.0	-8.6	2,510.0	6.5	2,670.0	6.5
Government Bonds	11,680.0	-7.9	10,946.0	-6.3	9,640.0	-11.9	8,330.0	-13.6	7,020.0	-15.7
Deficit Bonds	5,730.0	-11.2	5,246.0	-8.4	3,940.0	-24.9	2,630.0	-33.2	1,320.0	-49.8
Construction Bonds	5,950.0	-4.4	5,700.0	-4.2	5,700.0	0.0	5,700.0	0.0	5,700.0	0.0
Total Receipts	52,499.6	3.7	54,088.6	3.0	55,120.0	1.9	57,040.0	3.5	59,190.0	3.8
Shortfall (Total Payments minus Total Receipts)	--	--	--	--	3,430.0	--	4,380.0	--	6,080.0	--
					[3,940.0	--	5,440.0	--	7,770.0	--]
Current Expenditures	--	--	--	--	3,320.0	--	4,200.0	--	5,850.0	--
					[3,720.0	--	5,030.0	--	7,200.0	--]
Capital Expenditures	--	--	--	--	110.0	--	180.0	--	230.0	--
					[220.0	--	410.0	--	570.0	--]

Note: Figures in brackets allow for new stimulative spending.

Assumptions: For debt service costs, transfer of the required percentage of the outstanding debt to the sinking fund will be in effect after FY 1987; the national government will transfer to local governments 32 percent of national income, corporate and liquor taxes, which are expected to increase at the nominal rate of economic growth of 6.5 percent with an income elasticity of 1.2; overall tax revenues are based on nominal economic growth of 6.5 percent and an income elasticity of 1.1; deficit bonds will be reduced by Y1,310 billion annually after FY 1986; and issuance of construction bonds will be kept at the FY 1986 level.

Source: Ministry of Finance